

History of Provisions

This section describes the history and current provisions of the Social Security program. In the tables, the word “Act” refers to legislation enacted *in the year shown* (except that the 1967 Act was signed January 2, 1968). 1972a denotes legislation of July 1; 1972b denotes legislation of October 30; 1973a denotes legislation of July 9; 1973b denotes legislation of December 31; 1981a denotes legislation of August 13; 1981b denotes legislation of December 29; 1994a denotes legislation of August 15; and 1994b denotes legislation of October 22.

Coverage, Financing, and Insured Status

In 1998, about 148.5 million persons worked in employment or self-employment covered under the OASDI program. In recent years, coverage has become nearly universal for work performed in the United States (including American Samoa, Guam, the Northern Mariana Islands, Puerto Rico, and the Virgin Islands). About 96 percent of all jobs in the United States are covered. Coverage generally applies to persons irrespective of their age, sex, or citizenship. Table 2.A1 outlines the history of coverage provisions, and table 2.A2, the history of provisions regarding noncontributory wage credits, mostly for military service.

Workers excluded from coverage fall into five major categories:

- (1) Federal civilian employees hired before January 1, 1984,
- (2) railroad workers (who are covered under the railroad retirement system which is coordinated with Social Security),
- (3) certain employees of state and local governments who are covered under a retirement system,
- (4) household workers and farm workers whose earnings do not

meet certain minimum requirements (workers in industry and commerce are covered regardless of the amount of earnings), and

- (5) persons with very low net earnings from self-employment (generally less than \$400 per year).

Employees and employers and the self-employed each pay mandated contributions, or taxes, on earnings in covered employment and self-employment up to an annual maximum taxable amount for OASDI but, effective for 1994, without any upper limit on taxable earnings for HI (Medicare). The OASDI maximum taxable amount—\$72,600 in 1999—is updated automatically each year in proportion to increases in nationwide average wage and salary earnings—generally called the average annual wage. The current Federal Insurance Contributions Act (FICA) tax rate applicable to the employee and the employer each is 6.2 percent for OASDI (5.35 and 0.85 percent, respectively, for OASI and DI) and 1.45 percent for HI. The self-employed person pays the combined employee-employer rate of 12.4 percent for OASDI and 2.9 for HI under the Self-Employment Contributions Act (SECA). See table 2.A3 for annual amounts of maximum taxable earnings and contribution rates, 1937–99, and contribution rates scheduled for future years. Table 2.A4 shows annual maximum amounts of contributions by employees and self-employed persons, 1937–99.

Two deduction provisions reduce the SECA and income tax liability of self-employed persons. The intent of these provisions is to treat the self-employed in much the same manner as employees and employers are treated for purposes of FICA and income taxes. The first provision allows a deduction from net earnings from self-employment equal to the amount of net earnings before the deduction, times one-half the SECA tax rate. The effect of this deduction

is intended to be analogous to the treatment of the FICA tax paid by the employer, which is disregarded as remuneration to the employee for FICA and income tax purposes. The second provision allows an income tax deduction, equal to one-half of the amount of the SECA tax paid, which is designed to reflect the income tax deductibility of the employer’s share of the FICA tax.

Table 2.A5 describes income tax credits for 1984–89 intended to cushion the impact of increases in FICA and SECA taxes enacted in 1983. The SECA tax credits were replaced, effective 1990, by the deduction provisions described above.

The FICA and SECA taxes are deposited to the OASI, DI, and HI Trust Funds. In addition to the taxes on covered earnings, OASI and DI Trust Fund revenues include mainly interest on trust fund investments in securities guaranteed by the Federal Government, tax receipts attributable to income taxation of OASI and DI benefits, and transfers from the general fund of payments for costs of noncontributory military service wage credits and of benefits to certain uninsured persons who attained age 72 before 1972. Table 2.A6 outlines the history of provisions regarding appropriations from general revenues and interfund borrowing.

Public Law 103-387, signed October 22, 1994, simplified procedures for the reporting of wages paid to domestic employees and the payment of Social Security taxes on those wages. The threshold for coverage of a domestic employee’s wages was raised from \$50 per calendar quarter to \$1,000 per calendar year, effective in 1994. For years after 1995, this amount will increase in \$100 increments as average wages rise. The 1999 threshold is \$1,100.

Under this legislation, domestic employees on farms are now treated like other domestic employees and their wages are subject to the new

threshold instead of the threshold applicable to agricultural employees; domestic employees are no longer covered under Social Security in any year in which they are under age 18, unless they are no longer attending school and their principal occupation is household employment. Also, in cases where the employer has only domestic employees, their wages will be reported annually, rather than quarterly, on the employer's personal income tax return, and Social Security employer and employee taxes will be subject to quarterly estimated payments.

To become eligible for his or her benefit and benefits for family members or survivors, a worker must earn a certain number of credits based on work in covered employment or self-employment. These credits are measured in terms of quarters of coverage (QC). In 1999, a QC is acquired for each \$740 in annual covered earnings up to a maximum of four QC for the year based on earnings of \$2,960 or more. The amount of earnings required for a QC is adjusted automatically each year in proportion to increases in the average wage level.

Eligibility for most types of benefits requires that the worker be fully insured. To be fully insured a worker must have a number of QC at least equal to the number of full calendar years elapsing between age 21, or 1950 if later, and the year in which he or she reaches age 62, becomes disabled, or dies—whichever occurs first. Under this requirement, workers who reach age 62 in 1991 or later need the maximum number of 40 QC to be fully insured. For workers who become disabled or die before age 62, the number of QC needed for fully insured status depends on their age at the time of onset of disability or death. A minimum of 6 QC is required.

In the case of workers who die before achieving fully insured status, benefits may be paid to a worker's children and to his or her widow(er) caring for such children under age 16,

if the worker was currently insured at the time of death. To be currently insured, the worker must have earned 6 QC over the 13 calendar quarter period ending with the quarter of death.

To qualify for disability benefits a worker must be fully insured and, except where he or she is disabled because of blindness, must also meet a test of substantial recent work activity. Under this test, the worker aged 31 or older must have at least 20 QC during the period of 40 calendar quarters ending with the quarter in which the disability began. Workers disabled at ages 24 through 30 must have QC in one-half of the calendar quarters elapsing after age 21, and workers under age 24 need 6 QC in the period of 12 quarters ending with the quarter of disability onset. Table 2.A7 summarizes the basic provisions concerning benefit eligibility.

The President is authorized to enter into international agreements to provide coordination between the Social Security programs of the United States and the programs of other countries. The United States currently has social security agreements in effect with 17 countries, as shown in the following tabulation.

Social Security agreement with—	Effective in—
Austria	1991
Belgium	1984
Canada	1984
Finland	1992
France	1988
Germany	1979
Greece	1994
Ireland	1993
Italy	1978
Luxembourg	1993
Netherlands	1990
Norway	1984
Portugal	1989
Spain	1988
Sweden	1987
Switzerland	1980
United Kingdom	1985

An international social security agreement is designed to benefit both workers and employers. Such agreements eliminate dual coverage and contributions with respect to the same work under the social security

programs of the countries that are parties to the agreement. Agreements also prevent the reduction of social security protection that results when a person works under the social security programs of two countries but is not eligible for benefits in one or both of the countries when he or she retires, becomes disabled, or dies. Under an agreement, each country takes into account periods of coverage that are completed under the laws of the other country and that were not already credited under its own laws. A partial benefit is then computed by each country based on the proportion of total covered work completed in that country.